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ILL. C. C. DOCKET NO. 03-0177

ICC STAFF 1.0

DATE 8-12-03 BY CP

REVISED DIRECT TESTIMONY

of

THOMAS Q. SMITH

Accounting Department  
Financial Analysis Division  
Public Utilities Bureau  
Illinois Commerce Commission

Consumers Illinois Water Company

Annual Reconciliation of Qualifying Infrastructure Plant Clause

Docket No. 03-0177

August 12, 2003

1 Witness Identification

2 Q. Please state your name and business address.

3 A. My name is Thomas Q. Smith. My business address is 527 East Capitol  
4 Avenue, Springfield, Illinois 62701.

5

6 Q. By whom are you employed and in what capacity?

7 A. I am an Accountant in the Accounting Department of the Financial Analysis  
8 Division of the Illinois Commerce Commission ("Commission").

9

10 Q. Please describe your background and professional affiliation.

11 A. In 1974, I received a Bachelor of Arts Degree in Accounting from Michigan State  
12 University. I am a Certified Public Accountant licensed to practice in Illinois,  
13 Michigan, and Wisconsin. My prior accounting experience includes seven years  
14 as an auditor with the Michigan Public Service Commission. Subsequently, I  
15 was employed for three years by Wisconsin Southern Gas Company in the initial  
16 capacity of Senior Accountant - Rate Specialist and later as Controller. I am a  
17 member of the American Institute of Certified Public Accountants.

18

19 Q. Have you previously testified before regulatory bodies?

20 A. Yes, I have testified on several occasions before the Illinois Commerce  
21 Commission, the Michigan Public Service Commission, and the Public Service  
22 Commission of Wisconsin.

23 Q. What is the function of the Accounting Department of the Illinois Commerce  
24 Commission?

25 A. The Department's function is to monitor the financial condition of public utilities  
26 as part of the Commission's responsibilities under Article IV of the Public Utilities  
27 Act ("Act") and to provide accounting expertise on matters before the  
28 Commission.

29

30 Purpose of Testimony

31 Q. What are your responsibilities in this case?

32 A. I have been assigned to this case by the Manager of the Accounting Department  
33 of the Illinois Commerce Commission. I am to review Consumer Illinois Water  
34 Company's ("CIWC" or "Company") reconciliation filing, analyze the underlying,  
35 data and make recommendations as appropriate.

36

37 Q. What is the purpose of your testimony?

38 A. The purpose of my testimony is to report the results of my review of  
39 CIWC's Qualifying Infrastructure Plant Adjustment Clause (QIP) as provided in  
40 the Petition and in the Direct Testimony of Mr. Terry J. Rakocy, CIWC EXHIBIT  
41 1.0.

42

43

44

45

46 Q. Are you sponsoring any schedules as part of ICC Staff Exhibit 1.0?

47 A. As part of my testimony I am sponsoring the following schedules:

48

49 Schedule 1 - Staff Proposed QIP Reconciliation Summary

50 Schedule 2 - Staff Proposed Adjustment to ActNetQIP

51 Schedule 3 - Staff Proposed Adjustment for 13 Month Average

52 Schedule 4 - Staff Proposed Adjustment for Legal Cost

53 Schedule 5 - Staff Proposed Adjustment for Year 2001 Projects

54

55 Each of schedules 1 through 4 contains three pages, one each for Kankakee,

56 Vermilion, and Woodhaven. Schedule 5 applies to only Vermilion.

57

58 Summary of Reconciliation

59 Q. Explain Schedule 1, Staff Proposed QIP Reconciliation Summary.

60 A. Schedule 1 identifies the components of the Company's annual reconciliation as  
61 calculated by Staff and compares those components against the same elements  
62 as calculated by the Company. This Schedule nets the Company's calculated R  
63 factor and the Staff's calculated reconciliation of 2002 cost and revenue to arrive  
64 at an O factor for each of the three divisions. The O factors for Kankakee and  
65 Woodhaven are negative representing over collections to be refunded to  
66 customers. The O factor for Vermilion is positive representing an under  
67 collection to be collected from customers.

68

69 Adjustments to Recoverable Cost

70 Q. Explain Schedule 2, Staff Proposed Adjustment to ActNetQIP.

71 A. Schedule 2 calculates Staff's adjustment to the ActNetQIP component of the  
72 reconciliation. This adjustment appears on Schedule 1, line 2 and is developed  
73 on Schedule 2 in a manner to provide for the identification of individual  
74 components of the adjustment, 13-month average and elimination of legal cost.  
75 In the case of Vermilion there is a third component, disallowance of year 2001  
76 projects.

77

78 Thirteen Month Average

79 Q. Explain Schedule 3, Staff Proposed Adjustment for 13 Month Average.

80 A. This Schedule contains the mathematical calculation of the ActNetQIP  
81 adjustment for the 13-month average.

82

83 CIWC calculated the average balance of ActNetQIP using a twelve month  
84 average. Based on my knowledge of 83 Ill. Adm. Code 656.60(b)(1) which states  
85 that ActNetQIP "shall be computed by using an average of 13 end-of-month  
86 balances" it is my opinion that the use of a twelve month average is incorrect.

87

88 Q. Do you know if the Company agrees with you?

89 A. It is my belief that the Company agrees that use of a 13 month average is correct  
90 and they provided the information upon which the average component of the  
91 ActNetQIP adjustment is based.

92

93 Legal Cost

94 Q. Explain Schedule 4, Staff Proposed Adjustment for Legal Cost.

95 A. This Schedule contains the mathematical calculation of the ActNetQip  
96 adjustment for the Legal cost.

97

98 This adjustment is based on 83 Ill. Adm. Code 656.40 and 656.50, which  
99 identifies the costs which can be recovered through the QIP rider. The Company  
100 in its calculation of QIP cost has included legal expenses incurred for benefit of  
101 the rider. These legal costs were not incurred to support the construction of the  
102 plant. There is no evidence to support a contention that the plant would not have  
103 been constructed absent the legal cost.

104

105 Q. Do you know if the Company agrees with your adjustment?

106 A. The Company has indicated that they agree the adjustment is appropriate and  
107 they have supplied the information which supports this adjustment.

108

109 Year 2001 Projects

110 Q. Explain Schedule 5, Staff Proposed Adjustment for Year 2001 Projects.

111 A. This Schedule contains the mathematical calculation of the adjustment for the  
112 Year 2001 Projects. The reason for this adjustment is explained in the Direct  
113 Testimony of Mr. William Marr, ICC Staff Exhibit 2.0.

114

115 Depreciation

116 Q. Are any other adjustments necessary to reflect the use of a 13 month average,  
117 the elimination of legal cost, and the disallowance of year 2001 projects?

118 A. Yes. ActNetDep as shown on Schedule 1, line 5 is in part dependent upon the  
119 average ActNetQIP. Thus, the adjustment of a ActNetQIP to reflect the use of a  
120 13 month average, the elimination of legal cost, and the disallowance of year  
121 2001 projects creates an adjustment to ActNetDep. This adjustment is shown on  
122 Schedule 1, line 5.

123

124 Vermilion Revenue

125 A. Are there other adjustments that appear on Schedule 1?

126 Q. There is one other adjustment that applies to Vermilion only. Because of a  
127 double counting error, the Company's initial filing for Vermilion included excess  
128 revenues. The excess revenues, in the amount of \$10,722.40, is removed from  
129 QIP Revenue on Schedule 1 Vermilion, line 7.

130

131 Recommendations

132 Q. Do you have recommendations?

133 A. Yes, I recommend that the Company be ordered to refund to its customers  
134 amounts equal to the O factors identified in ICC Staff Exhibit 1.0, Schedule 1  
135 Kankakee and in ICC Staff Exhibit 1.0, Schedule 1 Woodhaven. CIWC should  
136 also be directed to collect from its Vermilion customers an amount equal to the O  
137 factor that appears on ICC Staff Exhibit 1.0, Schedule 1 Vermilion. Interest

138 should be calculated for all O factors in accordance with 83 Ill. Adm. Code  
139 656.80(i). The refunds and collections of the O factors, and interest, should be  
140 accomplished by their inclusion as part of the QIP charge calculated with the first  
141 information sheet that the Company files subsequent to the Order in this Docket.

142

143 Q. Does this end your testimony?

144 A. Yes.



Consumers Illinois Water Company, Inc.  
Kankakee  
Staff Proposed QIP Reconciliation Summary  
For the Reconciliation Year Ended December 31, 2002

Docket No 03-0177  
ICC Staff Exhibit 1.0  
Schedule 1 Kankakee  
Revised

Line No	Description	Per Staff C	Per Company D	Adjustment E
A	B			
1	Unamortized Balance at December 31, 2002	\$ -	\$ -	\$ -
2	ActNetQIP	\$ 518,971.86	\$ 563,472.26	\$ (44,500.40)
3	PTR	12.76%	12.76%	0.00%
4	Authorized Return	66,220.81	71,899.06	(5,678.25)
5	ActNetDep	14,723.00	14,747.00	(24.00)
6	Total Recoverable Cost	80,943.81	86,646.06	(5,702.25)
7	QIPRev	233,951.47	233,951.47	-
8	2003 Under (Over) Recovery Balance at December 31, 2003	(153,007.66)	(147,305.41)	(5,702.25)
9	R Factor	(147,305.41)	(147,305.41)	-
10	O Factor - Under (Over) Recovery	\$ (5,702.25)	\$ 0.00	\$ (5,702.25)

Sources:

Column C -- Response to Data Request 2.6  
Column D -- CIWC Exhibit A, Schedule (f)(3) Revised

Consumers Illinois Water Company, Inc.  
Kankakee  
Staff Proposed Adjustment to ActNetQIP  
For the Reconciliation Year Ended December 31, 2002

Docket No 03-0177  
ICC Staff Exhibit 1.0  
Schedule 2 Kankakee  
Revised

Line No	Description	Amount
A	B	C
1	Company ActNetQIP	\$ 563,472.26
2	Adjustment for 13 Month Average	<u>(43,344.02)</u>
3	Subtotal	520,128.24
4	Adjustment to Remove Legal Cost	<u>(1,156.38)</u>
5	Staff ActNetQIP	518,971.86
6	Company ActNetQIP	<u>563,472.26</u>
7	Adjustment to ActNetQIP	<u><u>\$ (44,500.40)</u></u>

Sources:

- Line 1 -- CIWC Exhibit A, Schedule (f)(3), Schedule (h)(4), Revised
- Line 2 -- ICC Staff Exhibit 1.0, Schedule 3 Kankakee
- Line 4 -- ICC Staff Exhibit 1.0, Schedule 4 Kankakee

Consumers Illinois Water Company  
Kankakee  
Staff Proposed Adjustment for 13 Month Average  
For the Reconciliation Year Ended December 31, 2002

Docket No 03-0177  
ICC Staff Exhibit 1.0  
Schedule 3 Kankakee  
Revised

Line No <u>A</u>	<u>Description</u> B	<u>Amount</u> C
1	ActNetQIP 12 Month Average per Staff	\$520,128.24
2	ActNetQIP 13 Month Average per Company	<u>56347226%</u>
3	Staff Adjustment to ActNetQip for Average	<u>\$ (43,344.02)</u>

Sources:

Line 1 -- CIWC Exhibit A, Schedule (f)(1), Revised  
Line 2 -- Response to Data Request TQS 1.3

Consumers Illinois Water Company  
Kankakee  
Staff Proposed Adjustment for Legal Cost  
For the Reconciliation Year Ended December 31, 2002

Docket No 03-0177  
ICC Staff Exhibit 1.0  
Schedule 4 Kankakee  
Revised

Line No <u>A</u>	Description <u>B</u>	Amount <u>C</u>
1	ActNetQIP without Legal Cost per Staff	\$518,971.86
2	ActNetQIP with Legal Cost Per Company	<u>520,128.24</u>
3	Staff Adjustment to Eliminate Legal Cost	<u>\$ (1,156.38)</u>

Sources:

Line 1 -- Response to Data Request TQS 2.6

Line 2 -- Response to Data Request TQS 1.3

Consumers Illinois Water Company, Inc.  
Vermilion  
Staff Proposed QIP Reconciliation Summary  
For the Reconciliation Year Ended December 31, 2002

Docket No 03-0177  
ICC Staff Exhibit 1.0  
Schedule 1 Vermilion  
Revised

Line No A	Description B	Per Staff C	Per Company D	Adjustment E
1	Unamortized Balance at December 31, 2002	\$ -	\$ -	\$ -
2	ActNetQIP	\$ 533,916.97	\$ 582,128.59	\$ (48,211.62)
3	PTR	12.76%	12.76%	0.00%
4	Authorized Return	68,127.81	74,279.61	(6,151.80)
5	ActNetDep	13,083.00	13,227.00	(144.00)
6	Total Recoverable Cost	81,210.81	87,506.61	(6,295.80)
7	QIPRev	105,696.40	116,418.80	(10,722.40)
8	2003 Under (Over) Recovery Balance at December 31, 2003	(24,485.59)	(28,912.19)	4,426.60
9	R Factor	(28,912.19)	(28,912.19)	-
10	O Factor - Under (Over) Recovery	\$ 4,426.60	\$ (0.00)	\$ 4,426.60

Sources:

Column C -- Response to Data Request 3.1

Column D -- CIWC Exhibit B, Schedule (f)(3) Revised

Consumers Illinois Water Company, Inc.  
Vermilion  
Staff Proposed Adjustment to ActNetQIP  
For the Reconciliation Year Ended December 31, 2002

Docket No 03-0177  
ICC Staff Exhibit 1.0  
Schedule 2 Vermilion  
Revised

Line No	Description	Amount
A	B	C
1	Company ActNetQIP v	\$582,128.59
2	Adjustment for 13 Month Average	<u>(44,779.13)</u>
3	Subtotal	537,349.46
4	Adjustment to Remove Legal Cost	<u>(808.54)</u>
5	Subtotal	536,540.92
6	Adjustment to Remove Year 2001 Projects	<u>(2,623.95)</u>
7	Staff ActNetQIP	533,916.97
8	Company ActNetQIP	<u>582,128.59</u>
9	Adjustment to ActNetQIP	<u><u>\$ (48,211.62)</u></u>

Sources:

- Line 1 -- CIWC Exhibit B, Schedule (f)(3), Schedule (h)(4), Revised
- Line 2 -- ICC Staff Exhibit 1.0, Schedule 3 Vermilion
- Line 4 -- ICC Staff Exhibit 1.0, Schedule 4 Vermilion
- Line 5 -- ICC Staff Exhibit 1.0, Schedule 5 Vermilion

Consumers Illinois Water Company  
Vermilion  
Staff Proposed Adjustment for 13 Month Average  
For the Reconciliation Year Ended December 31, 2002

Docket No 03-0177  
ICC Staff Exhibit 1.0  
Schedule 3 Vermilion  
Revised

Line No	Description	Amount
A	B	C
1	ActNetQIP 12 Month Average per Staff	\$537,349.46
2	ActNetQIP 13 Month Average per Company	<u>582,128.59</u>
3	Staff Adjustment to ActNetQip for Average	<u>\$ (44,779.13)</u>

Sources:

- Line 1 -- Response to Data Request TQS 1.5
- Line 2 -- CIWC Exhibit B, Schedule (f)(1), Revised

Consumers Illinois Water Company  
Vermilion  
Staff Proposed Adjustment for Legal Cost  
For the Reconciliation Year Ended December 31, 2002

Docket No 03-0177  
ICC Staff Exhibit 1.0  
Schedule 4 Vermilion  
Revised

Line No	Description	Amount
A	B	C
1	ActNetQIP without Legal Cost per Staff	\$536,540.92
2	ActNetQIP with Legal Cost Per Company	<u>537,349.46</u>
3	Staff Adjustment to Eliminate Legal Cost	<u>\$ (808.54)</u>

Sources:

Line 1 -- Response to Data Request TQS 2.7

Line 2 -- Response to Data Request TQS 1.5



Consumers Illinois Water Company  
Vermillion  
Staff Proposed Adjustment for Year 2001 Projects  
For the Reconciliation Year Ended December 31, 2002

Docket No 03-0177  
ICC Staff Exhibit 1.0  
Schedule 5 Vermillion  
Revised

Line No <u>A</u>	Description <u>B</u>	Amount <u>C</u>
1	ActNetQIP without Year 2001 Projects per Staff	\$533,916.97
2	ActNetQIP without Year 2001 Projects per Company	<u>536,540.92</u>
3	Staff Adjustment to Eliminate Legal Cost	<u>\$ (2,623.95)</u>

Sources:

- Line 1 -- Response to Data Request TQS 3.1
- Line 2 -- Response to Data Request TQS 2.7

Consumers Illinois Water Company, Inc.  
Woodhaven  
Staff Proposed Adjustment to ActNetQIP  
For the Reconciliation Year Ended December 31, 2002

Docket No 03-0177  
ICC Staff Exhibit 1.0  
Schedule 2 Woodhaven  
Revised

Line No	Description	Amount
A	B	C
1	Company ActNetQIP	\$ 9,030.11
2	Adjustment for 13 Month Average	<u>(694.62)</u>
3	Subtotal	8,335.49
4	Adjustment to Remove Legal Cost	<u>(55.77)</u>
5	Staff ActNetQIP	8,279.72
6	Company ActNetQIP	<u>9,030.11</u>
7	Adjustment to ActNetQIP	<u><u>\$ (750.39)</u></u>

Sources:

- Line 1 -- CIWC Exhibit C, Schedule (f)(3), Schedule (h)(4), Revised
- Line 2 -- ICC Staff Exhibit 1.0, Schedule 3 Woodhaven
- Line 4 -- ICC Staff Exhibit 1.0, Schedule 4 Woodhaven

Consumers Illinois Water Company  
Woodhaven  
Staff Proposed Adjustment for 13 Month Average  
For the Reconciliation Year Ended December 31, 2002

Docket No 03-0177  
ICC Staff Exhibit 1.0  
Schedule 3 Woodhaven  
Revised

Line No <u>A</u>	Description <u>B</u>	Amount <u>C</u>
1	ActNetQIP 12 Month Average per Staff	\$ 8,335.49
2	ActNetQIP 13 Month Average per Company	<u>9,030.11</u>
3	Staff Adjustment to ActNetQip for Average	<u>\$ (694.62)</u>

Sources:

Line 1 -- Response to Data Request TQS 1.7

Line 2 -- CIWC Exhibit C, Schedule (f)(1), Revised

Consumers Illinois Water Company  
Woodhaven  
Staff Proposed Adjustment for Legal Cost  
For the Reconciliation Year Ended December 31, 2002

Docket No 03-0177  
ICC Staff Exhibit 1.0  
Schedule 4 Woodhaven  
Revised

Line No	Description	Amount
A	B	C
1	ActNetQIP without Legal Cost per Staff	\$ 8,279.72
2	ActNetQIP with Legal Cost Per Company	<u>8,335.49</u>
3	Staff Adjustment to Eliminate Legal Cost	<u>\$ (55.77)</u>

Sources:

- Line 1 -- Response to Data Request TQS 2.8
- Line 2 -- Response to Data Request TQS 1.7